

DIRECT TESTIMONY  
OF  
SAMUEL S. MCCLERREN

TELECOMMUNICATIONS DIVISION  
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF GALLATIN RIVER COMMUNICATIONS L.L.C.  
PETITION FOR ARBITRATION PURSUANT TO SECTION 252(B) OF THE  
COMMUNICATIONS ACT OF 1934, AS AMENDED BY THE  
TELECOMMUNICATIONS ACT OF 1996 TO ESTABLISH RATES, TERMS, AND  
CONDITIONS OF INTERCONNECTION WITH NTS SERVICES CORP.

DOCKET NO. 11-0567

DECEMBER 16, 2011

1 **Q. Please state your name and business address.**

2 A. My name is Samuel S. McClerren and my business address is 527 East Capitol  
3 Avenue, Springfield, Illinois 62701.  
4

5 **Q. What is your occupation?**

6 A. I am an Engineering Analyst IV in the Engineering Department of the  
7 Telecommunications Division of the Illinois Commerce Commission  
8 ("Commission").  
9

10 **Q. Please describe your educational and occupational background.**

11 A. I graduated from Eastern Illinois University with a Bachelor of Arts Degree in  
12 Economics in 1976 and a Master of Arts Degree in Economics in 1977. From  
13 1978 to 1984 I worked in retail, supervising six outlets in the St. Louis area. In  
14 1984, I joined the Missouri Public Service Commission ("MPSC") as a  
15 Management Auditor. In 1987, I left the MPSC to join the Commission as a  
16 Management Analyst. In my role as a Management Analyst, I managed  
17 telecommunications projects of Contel of Illinois, Inc., GTE North, Inc., and Illinois  
18 Bell Telephone Company. In April of 1996, I began working in the  
19 Telecommunications Division of the Commission.  
20  
21

**Q. Have you testified in prior Commission proceedings?**

A. Yes. I have testified in several rate cases and arbitration proceedings generally regarding telecommunications service quality matters.

**Q. What is your understanding of this proceeding?**

A. Gallatin River Communications L.L.C. d/b/a CenturyLink ("CenturyLink") and NTS Services Corporation ("NTS") were unable to negotiate mutually acceptable interconnection rates for 2-Wire Loops<sup>1</sup> and DS1 ("Digital Signal 1") Loops. On August 3, 2011, CenturyLink filed a Petition for Arbitration requesting the Commission to determine the appropriate rates for the two types of loops. On September 23, 2011, NTS filed a Response to Petition for Arbitration. Both CenturyLink and NTS witnesses have filed direct testimony supporting their companies' respective petitions.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to address whether or not the proposed prices developed by CenturyLink's TELRIC model appear just and reasonable, as required by Section 252(d)(1) of the Telecommunications Act of 1996. Staff

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<sup>1</sup> My testimony covers Band 1 2-Wire Loop rates, which is identified in CenturyLink's Petition For Arbitration, and is the rate element addressed in NTS' Response To Petition For Arbitration. In Direct Testimony, NTS witness Fred Miri objects to CenturyLink's proposed Band 3 rate for 2 Wire Loops, indicating that at \$106.72, it is "...quite possibly the highest in the nation." However, the Band 3 rate is not identified as an issue to be addressed in this arbitration.

witness Dr. James Zolnierrek addresses the specific validity of CenturyLink's  
TELRIC model in ICC Staff Exhibit 1.0.

**Q. What are the rates in question?**

A. Table 1 shows the wholesale rates CenturyLink currently charges to NTS,  
CenturyLink's proposed wholesale rates, and NTS' proposed wholesale rates for  
the two disputed elements.

Table 1

	Current CenturyLink Rate	Proposed CenturyLink Rate	Proposed NTS Rate
2-Wire Loop	\$17.93	\$26.85	\$12.50
DS1 Loop	\$181.51	\$121.97	\$99.00

**Q. What percentage changes from the current CenturyLink rates do the  
parties propose?**

A. For the 2-Wire Loop, relative to CenturyLink's current rate, CenturyLink proposes  
a 50% rate increase, while NTS proposes a 30% rate decrease.

For the DS1 Loop, again relative to CenturyLink's current rate, CenturyLink  
proposes a 33% rate decrease, while NTS proposes a 45% rate decrease.

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59 **Q. Do you have any observations about the parties proposed rates relative to**  
60 **the current CenturyLink rates?**

61 A. Relative to the CenturyLink's current 2-Wire Loop rate, CenturyLink is proposing  
62 a large rate increase while NTS is proposing a large rate decrease, with an  
63 absolute percentage difference of 80%. Of the two disputed rates, the 2-Wire  
64 Loop rate represents the widest disparity in the relative positions of the parties.

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66 Relative to the DS1 Loop rate, both parties propose large decreases from the  
67 current CenturyLink rate, with an absolute percentage difference of 12%.

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69 **Q. Do the current CenturyLink rates reflect the results of a previously**  
70 **conducted TELRIC model?**

71 A. It is my understanding that CenturyLink's current rates are the result of  
72 successful negotiations between CenturyLink's predecessor, Gallatin River  
73 Communications, and NTS, which concluded in August 2006, and were not  
74 based upon a TELRIC model.

75

76 **Q. Do you have any reason to believe that the current rates negotiated by**  
77 **Gallatin River Communications and NTS did not allow a reasonable return**  
78 **for Gallatin River Communications?**

A. I have no reason to believe the current rates were inadequate for Gallatin River Communications to receive a reasonable return.

**Q. Relative to 2-Wire Loop or DS1 Loop, do you generally believe costs have been increasing or decreasing since August 2006?**

A. I am unaware of strong upward or downward cost pressures relative to 2-Wire Loop or DS1 Loop services since 2006.

**Q. CenturyLink witness Christy Londerholm, at pages 39 and 40 of her Direct Testimony (CenturyLink Ex. 2.0), concludes that CenturyLink's proposed unbundled network element ("UNE") prices are reasonable when compared to other incumbent local exchange carriers ("ILECs") in Illinois. Do you agree?**

A. No. My review of the evidence Ms. Londerholm proffers causes me to arrive at a very different conclusion. Table 11 of Ms. Londerholm's Direct Testimony (CenturyLink Ex. 2.0, p. 39) provides the data for my Table 2.

Table 2

	CenturyLink Monthly Rate	Verizon Monthly Rate	Percent Difference
2-Wire Loop	\$26.85	\$21.13	(21%)
DS1 Loop	\$121.97	\$103.19	(15%)

I consider Verizon's 21% lower rates for 2-Wire Loop and 15% lower rates for DS1 Loop to be significantly lower than CenturyLink's proposed rates.<sup>2</sup>

**Q. Do you have any reason to believe that the Verizon Illinois rates did not allow a reasonable return for Verizon Illinois?**

A. I have no reason to believe the Verizon Illinois rates were inadequate for Verizon Illinois to receive a reasonable return.

**Q. Why do you focus on Verizon's rates?**

A. Ms. Londerholm, in her Direct Testimony, CenturyLink Ex. 2.0, pp. 39-40, chose to compare CenturyLink and Verizon rates as a test of CenturyLink's TELRIC model reasonableness. I agree with her observation on page 40 that loop density (loops per square mile) is one of the largest factors affecting costs, and that Verizon's service area in Illinois is the closest to CenturyLink's service area when comparing loop density. I also note that, according to Ms. Londerholm, Verizon's Illinois service territory has a loop per square mile density of 28.1,<sup>3</sup> while CenturyLink's Illinois service territory has a loop per square mile density of 48.1. (CenturyLink Ex. 2.0, p. 40) Accordingly, CenturyLink's Illinois service

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<sup>2</sup> Ms. Londerholm used Illinois data from 2008, when the described territory was known as Verizon Illinois. Since that time, in Docket No. 09-0268, Verizon Illinois territory was reorganized into Frontier Illinois. The subsequent change in Verizon Illinois ownership has no bearing on my analyses in this proceeding, and I note the change only to avoid potential confusion.

<sup>3</sup> Ms. Londerholm's loop count in for Verizon in Table 12 does not include 29,373 loops for the Verizon South -IL (Alltel) area. While this does not impact my analysis, I wanted to be clear that in 2008, Verizon actually had 678,277 working loops in Illinois according to the FCC.

territory has over 70% more loops per square mile than Verizon's Illinois service territory.

**Q. Why is a higher loop per square mile significant to this proceeding?**

A. As I indicated, I agree with Ms. Londerholm that loop density is one of the largest factors affecting an underlying carrier's cost. The higher the loop density per square mile, the shorter the average loop length will be. The shorter the average loop length, the lower costs per loop will be. Accordingly, in Illinois, it would be reasonable to expect CenturyLink's proposed UNE prices to actually be lower than Verizon's UNE prices considering loop density. Table 2 does not verify that expectation.

**Q. Is it reasonable to expect CenturyLink's prices to be 70% lower than Verizon's simply due to the loop per square mile analysis?**

A. I do not advocate that position. While I believe the loop per square mile analysis to be very important, I would not simply take Verizon's UNE prices, reduce them by 70%, and take the position that the resulting rates are appropriate for CenturyLink.

**Q. In addition to loops per square mile, are there other factors that may influence CenturyLink rates relative to Verizon rates?**



136 A. Comparisons of different companies are complicated, and should only be used  
137 carefully. I would not, for example, advocate setting any rate based on a simple  
138 comparison of two companies. Differences between companies that could  
139 impact a comparison include geographical characteristics, regulatory differences,  
140 or economies of scale for purchasing.

141  
142 **Q. Do geographical characteristics, regulatory differences, or economies of**  
143 **scale for purchasing impact the validity of a Verizon and CenturyLink**  
144 **comparison?**

145 A. The comparison is not obviously flawed. Regarding geographical characteristics,  
146 both companies are providing local exchange service in primarily suburban or  
147 rural Illinois. Most of their respective territories would require construction  
148 trenching through primarily soil-based rights-of-way, not rocky territory or through  
149 highly congested, concrete-covered sidewalks or streets likely found in urban  
150 areas.

151  
152 Regarding regulatory differences, both companies are subject to the Illinois  
153 Commerce Commission, so their regulatory requirements have been very similar.

154  
155 Regarding economies of scale for purchasing, historically, Verizon would have  
156 been able to acquire goods and services at relatively lower prices than  
157 CenturyLink due to Verizon's larger size. However, CenturyLink acquired Qwest

on April 1, 2011, making CenturyLink the third largest telecommunications carrier in the United States. On a going forward basis, CenturyLink should be able to acquire goods and services at discounted prices comparable to prices Verizon received.

**Q. In her Direct Testimony, CenturyLink Ex. 2.0, p. 41, Table 13, CenturyLink witness Ms. Londerholm provides a comparison of CenturyLink properties in other jurisdictions as further support of rate reasonableness. Is this comparison valid?**

A. The comparison in Ms. Londerholm's Table 13 is inherently problematic and unpersuasive. It does not provide the loop per square mile density numbers that Ms. Londerholm and I agree represent one of the largest factors affecting an underlying carrier's cost. Additionally, different states have various geographical characteristics and their regulatory requirements are not consistent.

**Q. In his Direct Testimony, NTS Ex. 1.0, pp. 10-11, NTS witness Fred Miri proposes 2-Wire Loop rates of \$12.50 and DS1 Loop rates of \$99.00. Do you agree with how those rates were developed?**

A. My understanding is that Mr. Miri utilized rates from AT&T Illinois as an approximation for NTS' proposed rates. The validity of comparing AT&T Illinois rates to CenturyLink rates is questionable, particularly given AT&T Illinois' loop

per square mile metric of 465.9 compared to CenturyLink's loop per square mile metric of 48.1.

While AT&T Illinois and CenturyLink are both regulated by this Commission, AT&T Illinois has operated under an alternative form of regulation since 1993, the only telecommunications carrier in Illinois to do so.

Geographically, AT&T Illinois' service territory is primarily urban, which is very different than the suburban and rural nature of the CenturyLink territory.

Consequently, I do not consider AT&T Illinois to be an appropriate comparison for CenturyLink, and am unable to endorse Mr. Miri's proposed rates in this proceeding as a basis for just and reasonable rates.

**Q. What 2-Wire Loop rates should be considered in this proceeding?**

A. There are four 2-Wire Loop rates possible in the record. Any other rate advocated beyond those four rates would be arbitrary. The four possible 2-Wire Loop rates, in ascending order, are contained in Table 3.

Table 3

	NTS Proposed Rate	CenturyLink Current Rate	Verizon Rate	CenturyLink Proposed Rate
2-Wire Loop Rate	\$12.50	\$17.93	\$21.13	\$26.85

Not surprisingly, NTS proposes the lowest 2-Wire Loop rate, while CenturyLink proposes the highest 2-Wire Loop rate.

**Q. What 2-Wire Loop rate do you recommend in this proceeding?**

A. I do not support the NTS proposed 2-Wire Loop rate due to its reliance on AT&T Illinois' 2-Wire Loop rate as a foundation. Similarly, the CenturyLink proposed rate appears high, and is based upon CenturyLink's TELRIC model, which is addressed further in Staff witness Dr. James Zolnierrek's testimony. That effectively leaves the CenturyLink current 2-Wire Loop rate and the Verizon 2-Wire Loop rate as the remaining viable choices.

Given that: (1) the CenturyLink current 2-Wire Loop rates are based on successful negotiations conducted by Gallatin River and NTS in 2006, (2) that I am unaware of strong upward price pressure on 2-Wire Loops since 2006, and (3) that Verizon's 2-Wire Loop rates are based on a 70% lower loop per square mile density than CenturyLink's, I recommend that the Commission set the current CenturyLink 2-Wire Loop rate of \$17.93 as the just and reasonable 2-Wire Loop rate in this proceeding.

**Q. What DS1 Loop rates should be considered in this proceeding?**

A. There are four DS1 Loop rates possible in the record. Again, any other rate advocated beyond those four rates would be arbitrary. The four possible rates for DS1 Loop rates, in ascending order, are contained in Table 4.

Table 4

	NTS Proposed Rate	Verizon Rate	CenturyLink Proposed Rate	CenturyLink Current Rate
DS1 Loop Rate	\$99.00	\$103.19	\$121.97	\$181.51

In this case, NTS proposes the lowest DS1 Loop rate, while CenturyLink's current DS1 Loop rate is the highest of the four DS1 Loop rates.

**Q. What DS1 Loop rate do you recommend in this proceeding?**

A. Again, I do not support the NTS proposed DS1 Loop rate due to its reliance on AT&T Illinois' DS1 Loop rate as a foundation. With their proposed DS1 Loop rates, both CenturyLink and NTS propose rates below CenturyLink's current DS1 Loop rate. That effectively leaves the Verizon DS1 Loop rate and the CenturyLink proposed DS1 Loop rate as the remaining viable choices.

Verizon's DS1 Loop rate is based on a 70% lower loop per square mile density than CenturyLink's DS1 Loop rate, so Verizon's DS1 Loop rate should be higher than CenturyLink's DS1 Loop rate. That Verizon's DS1 Loop rate is close but

238 actually lower than CenturyLink's proposed DS1 Loop rate is a reason to accept

239 Verizon's DS1 Loop rate as a reasonable proxy.

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241 Conversely, CenturyLink's proposed DS1 Loop rate of \$121.97 is dramatically  
242 lower than the CenturyLink's current DS1 Loop rate of \$181.51, a reduction of  
243 33%. NTS agreed in 2006's successful negotiations that CenturyLink's current  
244 DS1 Loop rate of \$181.51 was acceptable. Accordingly, CenturyLink's proposed  
245 DS1 Loop rate could also be found to be appropriate.

246  
247 Both Verizon's DS1 Loop rate of \$103.19 and CenturyLink's proposed DS1 Loop  
248 rate of \$121.97 are defensible, and the Commission could select either and be  
249 within the parameters of just and reasonable.

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251 **Q. Does this conclude your prepared direct testimony?**

252 **A.** Yes, it does